

INDEPENDENT AUDITOR'S REPORT ON THE FULL-YEAR CONSOLIDATED FINANCIAL STATEMENTS

For the General Meeting and the Supervisory Board of PBG S.A.

Auditor's report on the full-year consolidated financial statements

We have been engaged to audit the accompanying full-year consolidated financial statements of the PBG Group (the "Group"), whose parent company is PBG S.A. (the "Company" or the "Parent"), with its registered office at ul. Skórzewska 35, Wysogotowo, Poland, covering the year ended December 31st 2017 and comprising the consolidated statement of profit or loss, consolidated statement of comprehensive income for the financial year January 1st–December 31st 2017, consolidated statement of financial position as at December 31st 2017, consolidated statement of changes in equity, and consolidated statement of cash flows for the financial year January 1st–December 31st 2017, as well as a summary of the applied accounting policies and other notes (the "attached consolidated financial statements").

Responsibility of the Management Board and Supervisory Board members for the consolidated financial statements

The Company's Management Board is responsible for the preparation and fair presentation of the consolidated financial statements in compliance with International Accounting Standards, International Financial Reporting Standards and related interpretations issued in the form of the European Commission's regulations and other applicable regulations, as well as the Company's Articles of Association. The Company's Management Board is also responsible for internal control, which is considered necessary for the preparation of consolidated financial statements that are free from material misstatement due to fraud or error. When preparing consolidated financial statements, the Management Board is responsible for assessing the ability of the Company and its subsidiaries to continue as going concerns, disclosing, if applicable, any issues related to their ability to continue as going concerns, and for adopting the going concern basis of accounting, except where the Management Board intends to liquidate the Company or discontinue its business, or if there is no viable alternative to liquidating the Company or discontinuing its business.

Pursuant to the Accounting Act of September 29th 1994 (the "Accounting Act"), the Company's Management Board and members of its Supervisory Board are further obliged to ensure that consolidated financial statements comply with the requirements stipulated in the Accounting Act.

Auditor's responsibility

We are responsible for auditing the attached consolidated financial statements in accordance with the provisions of:

- Act on Statutory Auditors, Audit Firms, and Public Oversight of May 11th 2017 (the “Act on Statutory Auditors”),
- Polish Financial Auditing Standards compliant with International Standards on Auditing, adopted by Resolution No. 2783/52/2015 of the National Chamber of Statutory Auditors of February 10th 2015, as amended,
- Regulation (EU) no 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (“Regulation 537/2014”).

These regulations require that we comply with ethical requirements and that we plan and perform the audit in such a way as to obtain reasonable assurance that the attached consolidated financial statements are free from material misstatement.

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue the independent auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the aforementioned standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control, and may involve any legal or regulatory area, not just those directly affecting the consolidated financial statements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Company’s Management Board as well as evaluating the overall presentation of the financial statements.

The scope of an audit does not include assurance on the future viability of the audited Group nor on the efficiency or effectiveness with which the Company’s Management Board has conducted or will conduct the affairs of the Group.

According to International Standard on Auditing (ISA) 320 (Para. 5), the concept of materiality is applied by a qualified auditor both when planning and conducting an audit, and when assessing the impact of misstatements and uncorrected misstatements identified during the audit, if any, on the consolidated financial statements, and also when forming the auditor’s opinion. Accordingly, all statements contained in the auditor’s report, including the statements on other legal and regulatory requirements, are made taking into account the qualitative and quantitative materiality level determined according to the auditing standards and the auditor’s judgement.

Because of the significance of matters described in the *Basis for disclaimer of opinion* paragraph, we have not been able to obtain sufficient and appropriate audit evidence that would provide, to our satisfaction, a basis for an audit opinion. Our disclaimer of opinion is consistent with the additional

report for the audit committee issued on the same date as this audit report.

Independence

While conducting the audit, the lead auditor and audit firm remained independent of the members of the Group in compliance with the Act on Statutory Auditors, Regulation 537/2014, and professional conduct rules adopted by the National Council of Statutory Auditors.

To the best of our knowledge and belief, we hereby represent that we have not provided non-audit services, the provision of which is prohibited under Article 136 of the Act on Statutory Auditors and Article 5(1) of Regulation 537/2014.

Selection of audit firm

We have been selected to audit the attached consolidated financial statements of the PBG Group by a resolution of the Company's Supervisory Board of March 22nd 2017. We have audited the PBG Group's consolidated financial statements ever since the financial year ended December 31st 2013, that is for five consecutive years.

Basis for disclaimer of opinion

1. On June 13th 2016, the decision of the District Court for Poznań-Stare Miasto of Poznań, 11th Commercial Insolvency and Restructuring Division, to approve the Company's voluntary arrangement with creditors (the "Arrangement") became final. On that date, the Company began to perform its obligations under the Arrangement, which provides that liabilities covered by the Arrangement are to be repaid in instalments by June 30th 2020. Pursuant to the Restructuring Agreement made by the Company and its related entities with the creditors, after the Arrangement became final, most of the liabilities covered by the Arrangement were refinanced through the issue of bonds redeemable by the Parent in series until June 30th 2020, based on a revised schedule. The total amount of the Company's liabilities under the Arrangement and bonds in issue was PLN 525m as at December 31st 2017, including PLN 68m payable by June 30th 2018 and PLN 25m payable by December 31st 2018. In Note 2.3 to the attached consolidated financial statements, the Company's Management Board disclosed certain going concern risks posed by the Company's current financial condition; however, given the steps taken by the Management Board to generate sufficient proceeds from the sources of funds with which the Management Board plans to meet the Company's liabilities, and to enable the Company and the Group to continue as going concerns, a decision was made to prepare the consolidated financial statements assuming that the Company and its subsidiaries would continue as going concerns for the foreseeable future, i.e. for at least 12 consecutive months subsequent to the reporting date. Accordingly, the attached consolidated financial statements were prepared on the assumption that the Parent and its subsidiaries would continue as going concerns and do not include any adjustments in respect of different policies for the recognition and measurement of assets and liabilities that would be necessary if the Parent were unable to continue as a going concern for 12 months after the reporting date.

However, in the course of the audit we did not obtain, to our satisfaction, sufficient audit evidence concerning the going concern assumption and supporting the feasibility of the cash flow plan prepared by the Company's Management Board, including planned proceeds from divestment of assets of the Company and some of its subsidiaries, sufficient to service the Company's liabilities for the 12 months after the reporting date and for the foreseeable future.

Therefore, we were not able to assess the validity of the going concern assumption made by the Company's Management Board in preparing the attached consolidated financial statements.

2. As at December 31st 2017, the Group presented an investment in joint ventures, which are equity-accounted in the consolidated financial statements, at approximately PLN 19m. The investment involved shares in Energopol Ukraina, a company carrying out a property development project in Ukraine. We are not satisfied that the documents provided to us by the Company's Management Board sufficiently confirm the accuracy of the investment's valuation as at the reporting date. In view of the foregoing, as well as the uncertain political and economic situation in Ukraine, we are not able to provide an opinion on the accuracy of the valuation of that investment in the attached consolidated financial statements.
3. In the statement of financial position, under 'Long-term contract receivables and amounts due from customers for construction contract work', the Group presented outstanding receivables in a total amount of approximately PLN 32m from a customer with which the Company is currently in a dispute over the performance of a construction contract. For details of the dispute, see Note 41 to the attached consolidated financial statements. Considering the significant uncertainty as to the outcome of the dispute and insufficient documentation that would allow us to determine, to our satisfaction, the date and likelihood of payment of these receivables as well as the consequences of the Company potentially being charged with liquidated damages, we are unable to assess the effect of this issue on the attached consolidated financial statements, including the recoverability of receivables disclosed in the consolidated statement of financial position.
4. The attached consolidated financial statements show a goodwill of PLN 102.5m, net of impairment losses recognised in previous years and in 2017. This goodwill arose in connection with a transaction executed in November 2011 in which the Group acquired control of the RAFAKO Group, and was determined based on the carrying amount of the RAFAKO Group's net assets as at the date of acquiring control. The Group made no adjustments to the provisional acquisition cost recognised following the transaction and, hence, no fair value of identifiable assets acquired and liabilities assumed was recognised in the attached consolidated financial statements.

In view of the foregoing and of the audit qualification concerning the consolidated financial statements for the year ended December 31st 2016, we are not able to express an opinion on whether the impairment loss on goodwill was correctly recognised in the profit or loss for the financial year and the comparative period, and whether the amount of goodwill disclosed as at December 31st 2017 and in the comparative data in the attached consolidated financial statements is correct.

Disclaimer of opinion

Because of the significance of matters described in the *Basis for disclaimer of opinion* paragraph, and particularly taking into consideration the import and nature of the issues related to the Parent's continued existence as a going concern and the potential effect that reflecting those issues in the attached consolidated financial statements could have on the Group's financial result for the year ended December 31st 2017 and on its financial position as at December 31st 2017, we were not able to obtain sufficient and appropriate audit evidence that would provide, to our satisfaction, a basis for an audit opinion. Accordingly, we do not express an opinion on the attached consolidated financial statements.

Report on other legal and regulatory requirements

Opinion on the Directors' Report

In the context of what we have explained above, we found that an analysis of the Directors' Report on the Group's operations in the period January 1st–December 31st 2017 would be irrelevant.

Opinion on the corporate governance statement

The Company's Management Board and members of the Company's Supervisory Board are responsible for preparing a statement of compliance with corporate governance standards in accordance with the applicable laws.

In connection with our audit of the attached consolidated financial statements, it was our duty, in accordance with the requirements of the Act on Statutory Auditors, to issue an opinion as to whether the Company as an issuer of securities required to submit a corporate governance statement constituting a separate part of the Directors' Report on the Group's operations, included in that statement all information required by the applicable laws and whether it stated with reference to certain information specified in those laws or other regulations that it was compliant with the applicable laws.

In our opinion, in the statement of compliance with corporate governance standards, the Company included the information specified in Par. 91.5.4.a, b, g, j, k and l of the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009 (the "Regulation"). The information specified in Par. 91.5.4.c–f, h and i of the Regulation, contained in the statement of compliance with corporate governance standards, is compliant with the applicable regulations and is consistent with information contained in the attached consolidated financial statements.

Information on preparation of the non-financial statement

In accordance with the requirements of the Act on Statutory Auditors, we state that in the Directors' Report on the Group's operations the Company included information on the preparation of a separate non-financial statement referred to in Art. 55.2b of the Accounting Act, and that the Company did prepare such separate statement.

We did not perform any assurance work with respect to the separate non-financial statement and we do not give any assurance regarding that statement.

Wrocław, April 26th 2018

Lead Auditor
Marek Musiał
qualified Auditor
entry number in relevant register: 9003

acting on behalf of:
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